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January 25, 2005

VIA FACSIMILE

Jonathan Steiner, Esq. McCorriston Miller Mukai MacKinnon LLP 5 Waterfront Plaza, 4th Floor 500 Ala Moana Boulevard Honolulu, Hawaii 96813

Unified Western Grocers, Inc. v. Twin City Fire Insurance Company

Re:

Policy Type: Directors & Officers Liability

Policy No.: Claim No.:

NDA0105226-01 02-287-634

Our File No: 51042/24856

Dear Mr. Steiner:

The purpose of this letter is to respond to your correspondence dated January 19, 2005, concerning the proposed settlement discussed in your letter.

As you know, in Judge Gillmor's ruling on December 6, 2004, granting Twin City's cross motion for summary judgment and denying Plaintiffs' cross motion for summary judgment, Judge Gillmor held there is no coverage for the claims asserted by Mark Yee because they constitute loss which is "restitutionary in character" and therefore uninsurable as a matter of law. For this same reason, Twin City has declined coverage for the claim asserted by Value Recovery Group ("VRG"), as set forth in our correspondence dated January 24, 2005.

In light of the foregoing, Twin City wishes to advise you that your client should act as reasonably prudent uninsureds in determining whether to consummate the settlements.

Nonetheless, if your clients wish to have a continuing dialog about this matter, we would appreciate your providing us with additional information concerning the terms of the proposed settlement. In this regard, we would appreciate your providing us with a basis for the settlement amounts and how the settlement amounts were allocated between the Individual Lawsuit and the Entity Lawsuit. Moreover, we would appreciate your advising us why VRG was included in the

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Jonathan Steiner, Esq.
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settlement when the VRG Lawsuits should have been dismissed based on lack of standing, as asserted in the motion your firm filed on October 19, 2004.

Finally, although your letter suggests that Sheppard Mullin benefited from the settlement, there is no mention of how much Sheppard Mullin contributed toward the settlement.

If you have any questions or comments, please do not hesitate to contact me.

Very truly yours,

Janice R. Hugerler for Kim W. West

KWW:lah